

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 14338
ORDER NO. R-13149**

**AMENDED APPLICATION OF YATES PETROLEUM CORPORATION FOR
THE ADOPTION OF SPECIAL POOL RULES, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 9, 2009, at Santa Fe, New Mexico, before Examiner Richard I. Ezeanyim.

NOW, on this 28th day of July, 2009, the Division Director, having considered the testimony, the record, and the recommendation of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Yates Petroleum Corporation ("Yates"), seeks the adoption of special rules and regulations for the Llano-Upper Pennsylvanian (Canyon) Pool, including a provision for 80-acre spacing and proration units.

(3) The Llano-Pennsylvanian Pool was created by Order No. R-3043, dated March 1, 1996 and the horizontal limits of the pool have been expanded and the pool is comprised of the following acreage:

Township 11 South, Range 35 East, NMPM

Section 31: NE/4
Section 32: NW/4

(4) By Order No. R-12223, dated November 1, 2004, the vertical limits of the pool were contracted to include only the Cisco, Canyon and Strawn formations and the Pool was re-designated the Llano-Upper Pennsylvanian Pool (Pool Code 39400).

(5) Currently the Llano-Upper Pennsylvanian Pool is governed by the General Rules and Regulations of the Oil Conservation Division [19.15.15.9A NMAC] with development on standard 40-acre oil well spacing and proration units with wells located no closer than 330 feet to the boundary of the unit..

(6) Yates is the owner and operator of the Reba BNU State Com Well No. 5 (API No. 30-025-31243) ("the Reba Well") located at a standard oil well location 2300 feet from the South line and 1650 feet from the West line (Unit K) of Section 32, Township 11 South, Range 35 East, NMPM. It was originally drilled by Kerr-McGee Corporation in August of 1991, and subsequently plugged. In October 2008 the well was re-entered and recompleted in the Upper Pennsylvanian formation, Llano-Upper Pennsylvanian (Canyon) Pool.

(7) The Reba Well is the only well currently producing from the Llano-Upper Pennsylvanian Pool. It has produced since January 2009 from a perforated interval in the Canyon member of the Upper Pennsylvanian formation.

(8) Yates presented an engineering study that demonstrated, based on decline curve analysis, that the Reba well should produce approximately 43,000 stock tank barrels (STB) during the remaining 12 years of its producing life. Yates also presented a volumetric calculation that showed this well should drain 86 acres and testified that, depending on the thickness of the reservoir across this area, this well could drain as much as 120 acres.

(9) Other Upper Pennsylvanian pools in the area are governed by Special Pool Rules and Regulations that provide for 80-acre oil spacing and proration units. The Ranger Lake-Pennsylvanian Pool [Order No. R-1418-B], and the Four Lakes-Pennsylvanian Pool [Order No. R-2326], are all on 80-acre oil spacing and proration units.

(10) Yates is the owner of all working interest in the pool and in all offsetting tracts.

(11) In order to prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and to otherwise prevent waste and protect correlative rights, special pool rules and regulations providing for 80-acre oil spacing units should be promulgated for the Llano-Upper Pennsylvanian Pool.

IT IS THEREFORE ORDERED THAT:

(1) The application of Yates Petroleum Corporation for Special Rules and Regulations for the Llano-Upper Pennsylvanian Pool including provisions for 80-acre spacing and proration units is hereby approved.

(2) Special Pool Rules and Regulations for the Llano-Upper Pennsylvanian Pool are hereby promulgated as follows:

SPECIAL RULES AND REGULATIONS
FOR THE
LLANO-UPPER PENNSYLVANIAN POOL

RULE 1. Each well completed in or recompleted in the Llano-Upper Pennsylvanian Pool or in the Upper Pennsylvanian formation within one mile thereof, and not nearer to or within the limits of another designated Upper Pennsylvanian oil pool shall be spaced, drilled operated, and produced in accordance with the Special Rules hereinafter set forth.

RULE 2. Each well shall be located on a standard unit comprised of 80 acres, more or less, consisting of the N/2, S/2, E/2 or W/2 of a governmental quarter section; provided however, that nothing contained herein shall be construed as prohibiting the drilling of a well on each of the quarter-quarter sections in that unit.

RULE 3. The Director of the Division may grant an exception to the requirements of Rule 2 without notice and hearing when an application has been filed for a non-standard unit comprising a governmental quarter-quarter section or lot, or the unorthodox size and shape of the tract is due to a variation in the legal subdivision of the United States Public lands Surveys. All operators offsetting the proposed non-standard unit shall be notified of the application by registered or certified mail return receipt requested, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the formation of the non-standard unit within thirty days after the Director has received an application.

RULE 4. A standard proration unit (79 through 81 acres) shall be subject to an 80-acre depth bracket allowable of 400 barrels of oil per day. The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 80 acres.

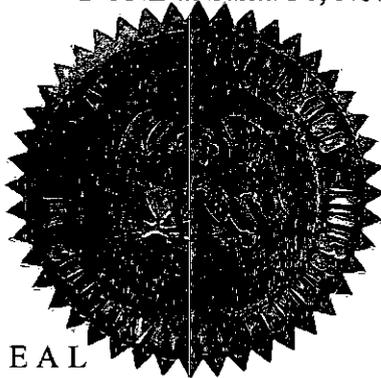
RULE 5. Pursuant to paragraph A. of Section 70-2-18, NMSA (1978), contained in Chapter 271, Laws of 1999, existing wells in the Llano-Upper Pennsylvanian Pool shall have dedicated thereto 80 acres in accordance with the

foregoing pool rules; or, pursuant to paragraph C of said Section 70-2-18, existing wells may have non-standard spacing or proration units established by the Division and dedicated thereto.

(3) Failure to file new Forms C-102 with the Division dedicating 80 acres to a well or to obtain a non-standard unit approved by the Division within sixty days from the date of this order shall subject the well to cancellation of allowable. Until said Form C-102 has been filed or until a non-standard unit has been approved, and subject to said sixty-day limitation, each well presently drilling to or completed in the Llano-Upper Pennsylvanian Pool or the Upper Pennsylvanian formation within one mile thereof shall receive no more than one-half the standard allowable for the pool.

(4) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director